

## **ABC's of Property Management**

by Robert L. Cain

How many people have you met over the years who said, when you mentioned that you own or manage rental property, something like “I owned a rental once and it was a nightmare”? That is followed by an enumeration of the disasters that befell that person and the property.

Owning and managing rental property is the greatest thing since the invention of houses, say those who would sell us No-Money-Down real estate courses and those who collect commissions on the sale of investment properties. It is true, owning real estate is a terrific investment for many, but not for everybody. In this business, there are some basics that, if followed, ensure success, but if ignored, ensure headaches, nightmares and lost money.

In this first of an occasional series of articles, we will look at the ABC's of property management. Some of the letters have more than one entry, and some I had to use convoluted English to come up with an entry. But inside every entry is a lesson to be learned and taught to others who are interested in the rental property business. So...on to the alphabet.

### **Always Pay Attention**

This one is important, and that's why it's first. Investment real estate is a hands-on business, not a passive investment like the stock market. When you own any real estate, it requires that you think about it, pay attention to it and mend anything that's wrong with it. Even as homeowners we know that.

What do we need to pay attention to? Most urgent is tenant selection. And bad tenants are usually the item that those who “owned a rental once” will cite as the reason owning rental property is a nightmare. A bad tenant can destroy your investment. Think about the damage one meth cook can do to your property. Think about the explosion and fire.

Even a run-of-the-mill, doesn't-pay-the-rent bad tenant eats up your investment, because you have to reach into your bank account to pay the mortgage and you let maintenance go because you don't have the cash to make necessary repairs.

Maintenance is important, too. Most maintenance, however, does not require constant attention and the serious issues can be done stopgap until done permanently.

To ensure you rent to and keep good tenants, it requires that you pay devoted attention to your investments.

### **Associations**

Other landlords hang out at rental owners', apartment and real estate investor's associations. They learn from each other. State and local trade associations are always full of smart and experienced landlords, who treat their business as a business.

Apartment, Landlord and Rental Owner Associations were organized and exist to help landlords and property managers take and keep more control of their rental properties. Landlords large and small – and especially those with only a few properties – benefit from being a member of their local apartment or landlord association.

### **Association Member's Benefits**

1. Forms designed to comply with state law
2. Procedures for tenant selection and evictions
3. Questions answered by experts in the rental housing field

4. Ability to stay on top of the ever-changing regulatory environment
5. Meet and learn from others who have experienced landlord problems
6. Understand and protect the legal rights of rental property owners
7. Deal effectively with code enforcement and be treated more fairly by government
8. Lobbyists representing their interests in the state legislature
9. Other landlords on their side.

### Business – That’s What We’re In

As pointed out in the first ABC, “Always pay attention,” every business is most successful when the owners and employees give it the attention it deserves. The problem is that many landlords don’t think they are in business; they think that rental property is just “something they do.”

If you forget or don’t believe that the rental property business is a business, you will find yourself in a world of hurt. Forgetting that can lead to all kinds of bad decisions, not the least of which is bad tenant selection. Bad tenants prey on landlords who “want to give people a chance,” “felt sorry for her,” or “thought they seemed like such nice people, they just had some bad luck.” No, you are about to have bad luck.

Landlords who don’t know they are in business also market their properties ineffectively. Doing a bang-up job of marketing is what brings the best applicants to the door. Ineffective marketing doesn’t bring anyone, not even the bad ones.

Ineffective marketing starts with a bad first impression of the property, answering the telephone in a non-businesslike manner, a poor ad in the newspaper and ignoring the free or inexpensive techniques that often work better than classified ads. Free, inexpensive and effective techniques include things such as flyers, online advertising, good phone skills, good interviewing skills and more.

### Care About Your Property and Your Tenants

This goes along with paying attention and treating your rental property business as a business. And it is one step farther.

Even if a landlord misses the point about being in business, caring about his or her investment accomplishes the same thing. Likewise caring about good customers, your good tenants. Let’s take them one at a time.

Caring about your investment means that you honor it. An inestimable amount of time, effort and saving went into acquiring your real estate investment. Neglecting your investment tells the universe that you don’t value it and untoward things happen as a result. I don’t know why, but they do. Think back to a time when you have neglected anything and remember the results of that neglect. Landlords large and small – and especially those with only a few properties – benefit from being a member of their local apartment or landlord association. They pay meticulous attention to how they are doing. They don’t just live in hope that everything will be all right. They make sure it is. Nothing is left to chance.

They value their good customers. Think about how much your good tenants pay you every year. Even if their rent is only \$500 a month, that comes to \$6,000 a year. If you owned a grocery store, think how much you would value a customer who spent \$6,000 a year in your store. On the other hand, “customers” who would steal from them are kept out of the store.

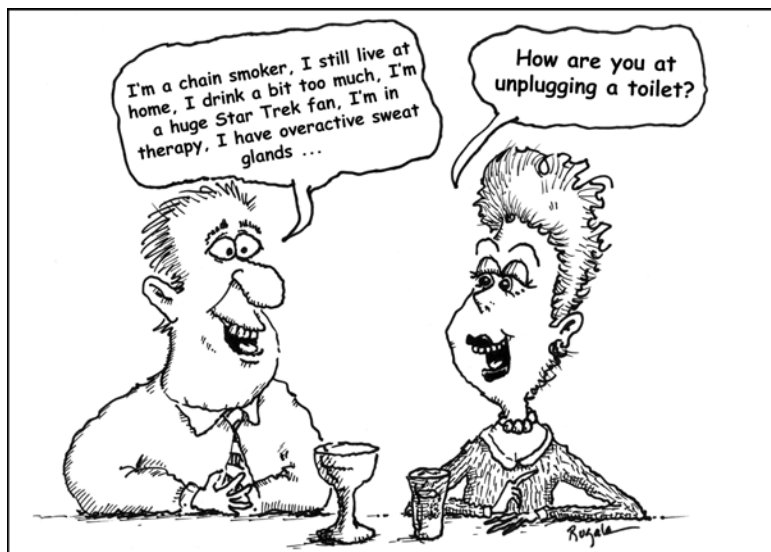
They look for ways to make their investments even more profitable. In the case of investment real estate, that means looking to make sure that the neighborhoods where their rental properties

are don't become drug or crime centers. They work with local government and with neighborhood associations to make sure their neighborhoods remain great places to live. In short, they are concerned about anything and everything that will affect their investments. That is why they are successful. They pay attention. They live, eat and breathe their investments. They play real estate investing to win, not just to survive. They expect to be wildly successful.

### Checklists

I wish I could remember everything, but I can't. That's why I use checklists and that's why I included checklists in the landlord manual *Profitable Tenant Selection*. Let me tell you the story of Landlord Tom. Tom's story sums up everything we have talked about so far.

"But they seemed like such nice people," landlord Tom told me. "They were fairly nicely dressed, they had fairly nice kids and they drove a fairly nice car. I took their application and read it over. But because I thought they were such nice people I didn't think I'd need to check anything."



That was the beginning of the nightmare for Tom. And the problems that these tenants caused had nothing to do with their not being nice, just stupid. Even so, it turned out that one of them wasn't very nice at all, but more about that later.

Tom thought they were so nice and got so excited about getting such nice people into his rental house that he forgot to have them sign the smoke-alarm disclosure.

It wasn't long before the weather got warm; after all it was late June and about time for it to warm up. The tenants, not having air conditioning, bought a used fan at a garage sale. This was one of those square ones that cost under \$20 at K-Mart or a hardware store brand new. You can imagine what they paid for it and why it was being sold at the garage sale.

They took it home and plugged it in using an 18-gauge extension cord so it would reach across the room and the rug. It didn't work very well, but they went to bed leaving it running anyway. The tenants' daughter said she saw sparks shooting from it. It wasn't too long before the fan motor froze up and overheated the extension cord, eventually starting a fire.

This rental house had been the farm house in the midst of a filbert orchard many years before. Now it was surrounded by a newer subdivision. It was built from good, solid, old-growth wood, but it was old and the wood in it was good and dry. The place went up like a matchbox.

Neighbors saw the fire and came running over to wake up the tenants. The daughter, who was sleeping downstairs, ran outside. The rest of the family was upstairs. The man pushed his son out an upstairs window. The son broke his arm when he hit the ground. Then he pushed his wife out the window. She broke her ankle and her arm.

Now he was ready to jump. A neighbor yelled for him to wait, he would bring a ladder. The tenant couldn't wait. He jumped head first out the window, landing on a concrete walkway, in the process cracking his skull and breaking his jaw. He was in the hospital for some time.

The smoke alarms, which incidentally had worked when they moved in, didn't work when the fire started because the tenants had removed the batteries from all of them.

Naturally, the tenants sued. They asked for \$5 million. Tom and his wife were understandably upset. In fact, Tom has a heart condition that wasn't made any better by all this. The tenants claimed that the house never had any smoke alarms in it. After all, there was no smoke alarm disclosure.

Tom went through the rubble of the house and found all three smoke alarms. He took them to his lawyer to show that the batteries had been removed. The tenants' lawyer said he could have just bought some smoke alarms, put them in barrel and burned them to make it look like there had been some in the house.

Then Tom went looking for the fan. It was gone. Now there was no evidence that Tom had been telling the truth. Tom's insurance company hired a private investigator. It didn't take him long to discover what Tom would have discovered had he done some minimal checking on these "nice people".

The man, (you know, the rocket scientist who dived head first out a second-floor window) had been evicted several times, once for building a huge trash fire in a fireplace and causing smoke and odor damage in a house. His ex-wife had a restraining order against him. He had also been arrested for leaving a child in his car while he went drinking in a bar. He had been in prison for molesting his step son. Just a charming fellow all around. Now he wanted \$5 million for his charm and stupidity.

Eventually, Tom's insurance company settled for \$300,000. That paid all the hospital bills, put \$20,000 in trust for the son's college education and provided a tidy sum for the tenant to drink up as he wished.

Tom's heart condition has improved since this episode is over. Since that time, he doesn't just rent to someone because they seem so nice. He also staples the smoke detector disclosure to the rental agreement so there's no chance he'll forget it. That's a good start.

Tom says, "It's just gotten to the point any more where you can't trust anybody. You've got to be so careful and not forget anything." I couldn't have said it better myself, Tom.

Just goes to show, though, had Tom used a checklist that included the smoke alarm disclosure, he would have been spared at least most of his trouble. Had he honored his investment, he would have been spared all trouble and the house would still be standing.

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